



Dan Bucks  
Director

# Montana Department of Revenue



## SENATE TAX

Exhibit No. 1

Date 1-28-2015

Bill No. SB 170

To: Dan Bucks, Director

From: Dan Dodds, Tax Policy Analyst

Date: September 18, 2009

Subject: Impacts of Requiring Married Taxpayers to Make the Same Choice  
Between Joint and Separate Filing as on Their Federal Returns

Most married couples file joint federal returns. Montana does not require married taxpayers to make the same choice between joint and separate returns as they do for the federal income tax. A majority of married couples file separate Montana returns.

This paper examines the reasons why married couples file differently at the state and federal level and options for changing Montana law to either encourage or require married couples to file the same way on their state and federal returns. The key findings are as follows:

- Federal income tax rates are structured so that married couples with the same taxable income have the same taxes whether they file a joint return or separate returns.
- Montana rates and exemptions are structured so that most two-income couples have lower taxes if they file separate returns, and most single-income couples have lower taxes if they file a joint return.
- Eliminating the incentives for married couples to file one way or the other would require having different rate tables for joint and separate filers, with the brackets in the joint-filer table being twice as wide as the brackets in the single-filer table.
- Creating a new rate table for joint filers with rate brackets twice as wide as the existing rate table's would reduce taxes for couples who file joint returns under current law and reduce general fund revenue by about \$40 million.
- Creating a new rate table for separate filers with rate brackets half as wide as the existing rate table's would increase taxes for couples who file separate returns under current law and increase general fund revenue by about \$40 million.
- A revenue neutral change would require new rate tables for both joint and separate filers and would result in higher taxes for some taxpayers and lower taxes for others.

①

Table 6 shows an example. Like the couple in Table 4, the couple in Table 6 has \$40,000 of adjusted gross income, has four exemptions, and takes the standard deduction. Unlike the couple in Table 4, one spouse receives most of the income.

**Table 6**  
**Example of Couple with Higher Taxes on Separate Returns**

	Separate Tax Calculations		Joint Tax Calculation
	<u>Spouse A</u>	<u>Spouse B</u>	<u>Combined</u>
Adjusted Gross Income	\$38,000	\$2,000	\$40,000
- Value of Exemptions (4)	\$6,420	\$2,140	\$8,560
- Standard Deduction	<u>\$4,010</u>	<u>\$1,780</u>	<u>\$8,000</u>
= Taxable Income	\$27,570	\$0	\$23,440
Tax from Table	\$1,403	\$0	\$1,118
Combined Tax Liability	\$1,403		\$1,118

If this couple file a joint return, their tax liability is the same as was calculated for the joint return in Table 4, \$1,118. If they file separate returns, their tax liability is \$1,403. This is \$285, or 25%, higher.

There are two reasons for this. One is that the spouse with most of the income in Table 6 is in the 6.9% tax bracket while both spouses in Table 4 are in the 5% tax bracket.

The other is that filing separate returns actually increases this couple's taxable income. Spouse B's exemptions and deductions are more than adjusted gross income, so only part of them reduces taxes by offsetting income. In addition, this couple's combined standard deduction is lower if they file separate returns. In Table 4, both spouses are in the range where their standard deduction is 20% of adjusted gross income. Their combined standard deductions are \$8,000 whether they file separate returns or a joint return. In Table 6, Spouse A is able to claim only the maximum standard deduction, and the couple's combined standard deductions are \$5,790 if they file separate returns.

Individual married couples pay different taxes depending on whether they file separate returns or a joint return. The two groups of taxpayers who choose to file separate returns and who choose to file joint returns also pay different taxes. This is partly because the two groups have different characteristics and partly because their different characteristics give them incentives to file differently.